

MR. WU: Thank you, Chairman, for inviting me here.

Today we are here to discuss the issues and impact of trade with China, especially China in the WTO in regard to permanent NTR.

China currently enjoys a trade surplus with the United States of \$60 billion. It is my belief that China's entry into the WTO will not have a favorable impact on that imbalance for several reasons.

Firstly, there is no reason to believe that China will comply with the terms of the WTO agreement. And it has not lived up to any past agreements.

Secondly, China does not have a market-driven economy. The economy is controlled by the communist party. It is not a free economic system. And they will not allow any actions that they believe are not in their best interests.

I would also like to talk today, about my prime interest in the issue of U.S.-China trade, whether or not an increase of trade with China will encourage democratic reforms in China. In fact, increase of trade will not lead to democratic reforms in China but will hinder them.

This year has seen the worst human rights abuses in China since the Tiananmen Square massacre in 1989. The United States, through its trade policy, has been financing the Chinese communist party and the People's Liberation Army in their attempts to repress the Chinese population.

Since 1992, China has entered into four bilateral trade agreements with the United States. I don't want to repeat the details here because Mr. Mastel has already told you about these violations. But I want to say we must also listen to what China is saying about compliance with all of these WTO agreements.

The U.S. Administration claims that by allowing China to join the WTO, we will be able to make sure that China plays by the rules of our trade agreements, but only a few days after the agreement was signed, China began to publicly reject some of the terms of the agreements in the areas of insurance, telecom, and other things. China has already gone back on its word before the ink is even dry.

This should not be surprising to those who are realistic about China. China does not have rule of law. The communist party cannot institute a true

market economy. The so-called market economy in mainland China is actually a socialist market economy controlled by the government.

The Chinese economic success story of the '80s and '90s is based largely on bad loans and transfer of wealth -- from the state to party cadres or on bad accounting.

There is no influential middle class today in China. There is only an elite class depending on the CCP, a red bureaucratic class. They have two titles: CEO, manager; and also a communist party membership. I once heard a Chinese official proudly claim that he had privatized a local hotel. It means that he now owned it.

No force on Earth today can return China to isolation. But any actor - political or apolitical -- would be foolish to try to isolate the world's most populous nation. Don't try to tell me that if we disagree with China's accession to WTO or with PNTR that we intend to isolate China.

We must still ask why the West, the United States included, has adapted a Kowtow culture in its dealings with the communist Chinese government. We

pretend to have a strategic partnership with a regime whose goals and values are very different from our own.

Let me remind you in 1955, Krushchev condemned Stalin but the United States never pretended that the Soviet Union was our partner. The current leaders of China seek to claim the mantle of Mao Tse Tung thought. The portrait of Mao still hangs in Tiananmen Square.

Our relations with China are based on the false idea that the stability of the Chinese communist party is necessary for successful political economic relations with China and for stability in Asia and for international peace in general. But a stable, dominating communist party is not equivalent to a stable or prosperous China or to stability in Asia.

Over the last week, the Chinese People's Liberation Army obtained a Russian-built missile destroyer. And they will acquire a second destroyer by the end of the year. Currently, 2,000 former Soviet military experts are working for the PLA.

I want to ask you this question: Are these Russian weapons and experts helping the Chinese become a more free and democratic society? Where did the Chinese Communist government obtain the hard currency

to purchase battleships and pay the Soviet weapons experts? Did that money come from the socialist economic system?

This is the same country that owes many of its employees in its state-owned enterprises, months of back pay, the same country that is the largest recipient of aid from the World Bank.

It's the money of the Western capitalists that helps to fuel the communist vehicle. When people mention that China has an impressive economy and that it is growing, of course, there are \$300 billion U.S. dollars invested in this piece of land. Of course, it has made impressive developments.

Yet, despite the fact that the Chinese communists are building up their navy and buying Russian battleships, still they continue to abuse human rights. One of the most popular theories in politics today is that the best way to promote democracy and improve human rights in a communist country like China is to build up trade and investment. To me this strategy is as realistic as convincing a tiger to become a vegetarian.

(Laughter.)

MR. WU: This argument has been claimed repeatedly in the current debate over permanent NTR and China's entry into the WTO. The reasons for this dollars to democracy approach are the following. Number one, the education revolution is bringing development of new information and communication systems that help the flow of the truth to the people.

Number two, the West is dragging the Chinese leadership to become a more active participant in the international community, which requires following international norms. In this way, China will become more disciplined.

Number three, contact with the West will gradually improve human rights in China. Please allow me to briefly address each of these supposed reasons why increased trade will lead to greater democracy in China.

First, the educational revolution and the spread of information are supposed to bring democracy to China. Twenty years ago, television was supposed to bring a new era of openness to China. Cell phones were supposed to bring a new era of freedom. Now it's the Internet.

Of course, we cannot dismiss the achievement that has been made by these telecommunications systems. Yes, there are some small cracks in the wall. But the Chinese government is doing everything they can to seal up these cracks as quickly as possible.

Censorship is used in all forms of media in China. And those seeking to work outside the confines of the state-controlled media may be subject to detention and imprisonment. It is foreign companies and foreign technology that are helping the government to control the spread of information.

For example, a telecommunications firm that wanted to put China on its satellite network agreed to bounce back the satellite signals to China so that Chinese security can trace calls if they want.

Rupert Murdoch, in order to enter into the Chinese market, agreed to pull CNN from his cable systems and last September when meeting officials at the Fortune Conference in Shanghai, told the generals that they should not report things that will offend their host country.

The second way which economic engagement is supposed to bring democracy is the idea that by joining

the international community, China will learn international norms and become more disciplined.

This is a very nice wish. But the truth is that China has done more to change international institutions than international institutions have changed China. One of the examples is the United Nations Human Rights Commission in Geneva.

Last week, China released a white paper on human rights that applauds the level of freedom and democracy in China. China had learned how to use some international words as other countries have, but the meaning is completely different.

I have already mentioned numerous trade agreements, just as Mr. Mastel that China has violated.

That is to be expected from the Chinese government. But what I see as the worst part about the whole thing is that the United States has begun to echo their lies.

Some will say that China is already making strides in human rights, in part, because the current rulers of China are more enlightened and thanks in part to contact with the West. First, they echoed the idea that economic development is the same as human rights.

If you look at Chinese history, since 1979 Deng Xiaoping's policies of economic reform were not

intended to weaken the power of the communist party. After Mao's death, Deng Xiaoping did not intend to end the communist system. Rather, he instilled economic reforms. He knew that the party could not hold on to its legitimacy if it did not change.

Today someone in this conference quoted from Deng Xiaoping. I also want to quote something from Deng Xiaoping, and I think many people know about it. He said, "It doesn't matter if the cat is black or white as long as it catches a mouse." So the communist cat is still alive, maybe it has changed color, and it continues to catch the mouse. And we are going to be feeding this fat cat.

The communist party needs foreign investments because the socialist market economy in China cannot support itself. And the investment and technology transfers from the West are providing transfusing to this sick regime.

China has learned that as long as it negotiates trade agreements, it can continue to repress its people. I wish that foreign business would be honest and admit why China is good for American business.

The biggest advantage is a cheap and disciplined labor force. It is very good for American business to have a strong Communist Party because then you do not have to worry about giving worker benefits or dealing with strikes. Don't try to tell me that setting up a sweatshop to make cheap sport shoes to export back to the United States is good for the Chinese people.

Every day in China people are making demands like those made at Tiananmen Square in 1989. Listening to these people would be a way to bring about stability.

It is a tragedy that this regime refuses to recognize the basic fact that democracy is the best way to stability. It is even more tragic that all the human rights abuses continue without any serious consequences in the international arena.

Today countries like Cuba, North Korea, Iraq, and Burma face sanctions from the United States because of certain crimes, either on arms sales or threats to neighboring democracies or massive human rights abuses. Communist China commits all of these crimes and gets a free lunch from the United States.

The Chinese communist government uses economic reform and nationalism to resist democratic reforms. If this type of regime continues to exist, it will be a huge factor of instability for international peace.

Of course, the history of China is written by the Chinese. But in today's international environment, international political and economic pressure can play a very important role.

The international community must tell China clearly we expect to see a peaceful, prosperous, free, and democratic China, not a prosperous and stable communist China. Peace and prosperity are possible only when human rights and democracy and freedom are respected.

I want to leave you a message regarding the coming debate of permanent NTR. NTR is normal trading status. China is not a normal country. It is the largest communist totalitarian country.

I believe that if we keep renewal, then we keep the benefits. Annual debate of NTR is a very important legacy for the United States.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very, very much.

Commissioner Rumsfeld?

COMMISSIONER RUMSFELD: Mr. Wu, I certainly appreciate your being here and having an opportunity to read your testimony and to hear you present it so forcefully and with such feeling.

Dr. Krueger had to leave, and she asked me before she left if I would ask the question that you talked about and Mr. Mastel talked about, namely: to what extent does the People's Republic of China comply with their agreements? You have both addressed that subject.

I would be curious to hear Mr. Lardy and some others, Gerrit, possibly you, talk about that subject, both with respect to China, but also comparing them to other countries and the extent to which other countries adhere to their trade agreements.

MR. LARDY: Let me start. Are you asking Harry to start or do you want us to start?

COMMISSIONER RUMSFELD: I've heard what Mr. Wu and Mr. Mastel think about it. And she wanted me to ask others to comment on it.

MR. LARDY: Well, it is certainly the case that the record is mixed on the trade agreements, but I do think it is what I would call promising.

I think China has made enormous progress in living up to the 1992 IPR agreement. It did take a long time. But if you read the most recent reports coming from USTR, they are giving China a pretty clean bill of health in terms of having closed down the large factories in China that were producing most of the counterfeit intellectual property materials, particularly in the videos and so forth. I think they have made considerable progress there.

I would say the same thing is true in the market access agreement. Very substantial increases in imports of the commodities that used to be covered by the restrictions that have been phased out over time have occurred.

Textile transshipment is very complicated. It involves other countries besides China. It involves a lot of foreign-invested companies in China.

I think this may be an area that is something of an exception to Mr. Mastel's comment that the government is directly involved in a lot of this. Much of the textile product is being produced in joint venture factories, and there is no doubt there is some abuse of transshipments the Chinese government has made some efforts to control. It probably needs to do more.

On prison labor, quite frankly, I think they were very poorly advised to sign the agreement in the first place. We export prison labor products from our country. If we don't want China's prison labor imports, we should enforce it at our borders and not expect the Chinese to restrict their exports of prison labor products and we do not. So I won't say anything more about that particular agreement, which I think they signed under enormous duress and should never have agreed to.

DR. GONG: At the company level, there is the old phrase that the signing of the contract is beginning of negotiation. I don't think that's unique to China, but there is clearly a Chinese phenomenon where negotiation of terms of reference occur following contract.

And at the national level, as Nick has just said, the record in my view is clearly mixed. We looked at the IPR, market access, textile and prison labor agreements, but I think the same thing could be held true. If you look, for example, in the security area, the MTCR and other security-related agreements to which China has been party, there is kind of a mixed

sense of what has been agreed to and what has been actually enforced.

Where I would respectfully disagree slightly with two other of our panel representatives is this: You can't enforce an agreement if you don't have an agreement.

I think the general trend towards having agreements brings about over time the ability and the process of enforceability that does not exist otherwise. And so the fact that there has not been perfect enforceability to me is not an argument for having no agreement.

MR. LARDY: If I might just make one additional comment that I think underlines that last point? The Intellectual Property Alliance, which represents all of the industry producing these products, is a strong supporter of permanent normal trade relations for China.

So yes, there are some problems, but it's certainly I think their view that they will benefit from China's participation in the WTO and coming under the disciplines of that regime.

DR. HARDING: I don't have much to add to what has been said, but let me just make a couple of

points. First, as I indicated in my prepared remarks, I think enforcement is going to be a big problem.

Much depends upon whether the various obligations undertaken are clearly seen by the national leadership as being in China's interest and then whether that national leadership has mechanisms of enforcement at its disposal. And that means that we will probably see more problems in some areas than in others.

Intellectual property rights is a very good example of this. When it's a matter of protecting somebody else's intellectual property, then enforcement is more of a problem. The key, I think, is when the Chinese themselves have more and more intellectual property to be protected.

It's when the Chinese government understands that it's in China's national interest to protect intellectual property that you begin to see the progress that we have seen. On the other hand, the fact is that piracy, especially of simple things, like video disks and CDs and audio tapes, is so easy and so inexpensive and the profit so great that the enforcement problems are enormous.

I also want to endorse Gerrit's point that the problems of enforcement are in most cases not a sufficient argument for arguing against a law or an agreement.

I think the issue is the one that Greg Mastel mentioned, which is: How do we more vigorously enforce our rights under the obligations that China has undertaken and ask the question, who in the U.S. government is going to be responsible for this? I assume the answer is USTR, which is one of the tiniest government agencies.

So it seems to me that, again, we ought to ask ourselves: What are the opportunities open to us to secure enforcement of our rights and benefits under these agreements, and are we really investing the resources to pursue our rights to the fullest extent possible?

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Wessel? Do you wish to respond?

MR. MASTEL: Can I just say a few words about this? You have to keep in mind when talking about trade agreements that there are many, many provisions.

Many of the things that China was obligated to do with the intellectual property agreement and market access, it would have probably done anyway for its own reasons. It wanted to simplify its economy. So it would have done some of these reforms on its own for its own reasons. And the agreement didn't have much to do with it.

To say that generally they've done most of the things they said they would do or many of the things they said they would do really doesn't answer the question. They would have done most of the things they said they were going to do, even if they didn't say they were going to do them, for their own reasons.

The agreement itself has to be evaluated on how well they have met the terms of the agreement. And, as I say, when you say the record has been mixed, you have to show some positive examples. And I haven't seen any positive examples.

Every agreement we have had with China has had a real serious and, unfortunately, a compliance problem. That's my main point. We need to invest resources to make sure that we get the benefits we have talked about in this agreement.

It may be a good agreement. We may want China in the WTO anyway. We definitely want to make special votes on how we get the benefits that we anticipate.

If you look at the discussion we're going to have on PNTR, there will be a lot of high comments about how China will change, there will be dramatic change in China, and we'll see a new economy emerging, only if the agreement is enforced, only if we make sure China does what it says it was going to do. Otherwise those things are just pipe dreams.

CHAIRMAN WEIDENBAUM: Commissioner Wessel?

COMMISSIONER WESSEL: Harry, did you -- I think Harry wanted to say something.

CHAIRMAN WEIDENBAUM: Please.

MR. WU: I want to respond to Mr. Lardy and make a general point. First of all, Mr. Lardy made a comment about prison labor. While it seems to him there is a mistake that we should not have the kind of policy forbidding this prison labor because we also, the Americans also, export prison labor elsewhere. That's very interesting.

You know, this issue was started in September of 1991. Clearly it is after the September

hearings in the Senate and House. In October, the Chinese government right away issued a regulation.

The regulation said "We never allow any products made by forced labor to be exported. If we find out, we would punish them." This was their response to the hearings in the Senate and the House. They say this like they care about hearing the voice of the United States.

Later, after two Memorandums of Understanding between the United States, Americans requested to visit their prison facility according to these memorandums, this really bothered them.

So recently the Chinese have a kind of complaint. They say we made a mistake because America also exports prison labor products, why allow them to inspect our prison system. I'm very surprised today Mr. Lardy says the same exact things as the Chinese government has said.

The second point. We have to know who our business partners are. They are not like people from Germany or even from Turkey or Brazil. These Chinese businesses are red bourgeois class businessman. They are government representatives. We have to be very clear who are these people are.

What kind of company today in the New York stock market is seeking stocks from China? Then we can talk about normal so-called what is a violation. The violation of business law happens all the time, even domestically and internationally.

Thank you.

COMMISSIONER WESSEL: Well, I want to thank all the panelists for being here. And, Harry, it is always an honor to be in your presence. You're an inspiration to many.

I would like to ask a question about enforcement in the transition we are about to undergo in terms of the WTO. We have seen in a number of cases that the U.S. has brought to the WTO, bananas being one of them, whether you believe in the merits of the case or not, that application of a remedy is difficult to achieve.

I think in the banana case, we have seen three to five separate rounds of going back to try and get the Europeans to agree with the WTO decision on that case.

Here we have, for example, on the prison labor Laogai issue the problem that we may be facing that the ability to sanction any violation should, in

fact, they be found, would no longer be a bilateral matter. But, rather, our ability to sanction them would come under WTO law.

We would have to go to the WTO to seek redress to these problems. So that we lose bilateral leverage, which has been effective at times. It was effective in reaching the second IP agreement with China, et cetera. And now with the merger of our domestic concerns and the WTO membership, we lose tremendous enforcement ability.

I would like any of the panelists to respond to that, please.

DR. GONG: Can I just say yes, it is a concern. And I think you could say without being critical that it was part of the calculation on the part of the Chinese government and its interest in using the WTO multilateral format.

I would also say that it is worth, particularly for this Commission, to think about how the nature of the WTO may evolve over time. Think of the leadership of the WTO and the split chairmanship for the upcoming session, and you can imagine that the WTO in terms of its approach to certain questions on certain countries over time may be different.

Again, that doesn't mean we should not, as I do, support China's entry in the WTO, but I think you're right to say that those are issues that we ought to be focused on.

MR. MASTEL: I think you're right. You do give up something when we go with the bilateral leverage. It's important we focus on that because we do have an alternative to WTO membership.

Once China is in the WTO, there is an assumption on the part of some that enforcement is automatic, somehow by fiat things change in China.

As I tried to point out, that has not been the case with any other agreement with China. So we have no reason to think that fiat is going to work with the WTO.

More importantly, in the WTO context, dispute settlement becomes a much more complex matter. It's not just a matter of the United States deciding this is good evidence that, in fact, the Chinese are pirating intellectual property. It's a much more complicated task of actually proving that claim before a WTO dispute settlement panel.

In a country where there is a very weak rule of law, where things aren't done by written regulation

and written law, it can be very difficult to even prove that a violation exists, much less to get a panel to rule in your favor on the issue.

So the WTO dispute settlement actually makes this whole issue more complicated.

COMMISSIONER WESSEL: Let me also ask a clarifying issue, if I can. My understanding is that Laogai, the prison labor issue, is not covered under the WTO, it's ILO, et cetera, but that in allowing China's accession to the WTO, we would be forced to bring any sanctions for that agreement to the WTO, for example, raising tariffs, bound tariffs, et cetera, so that without knowing it, we are, in fact, giving up all leverage on the prison labor issue. Is that correct?

MR. MASTEL: We are giving up the trade leverage at least, yes.

COMMISSIONER WESSEL: Trade leverage? Yes.

MR. MASTEL: It is just like with the environmental agreements. If we were to try to enforce an environmental agreement with a trade sanction and raise a WTO-bound tariff, we would be in violation of the WTO, or at least arguably.

The same thing would be true in prison labor. If we tried to raise a bound tariff or do

something else that was WTO-prohibited to enforce prison labor standards we would be in violation of the WTO.

COMMISSIONER WESSEL: Thank you.

MR. LARDY: Can I make a comment on this? We certainly may lose leverage in some areas, but I don't think it's -- I think it's more complicated. I mean, look what has happened over the last two to three years.

Few U.S. companies have gone to USTR. How many 301 cases have there been in recent years? Practically none. Companies are not willing to initiate this process, this bilateral process.

I think when you have China in the WTO, you will have more use of the dispute settlement process. The most important thing about it, I think, is that there is a fact-finding stage before a panel is even appointed. That requires the Chinese to come to a meeting and explain their view of what the facts are and gives the American company or the U.S. government on its behalf a chance to set out what they perceive to be the problems.

I think this is going to facilitate a substantial increase in the information flow and is

going to allow U.S. companies to bring what they regard as egregious behavior to the attention of the Chinese authorities in a manner that doesn't bring enormous attention on them.

I think we'll see extensive use of the mechanism, even if not all of these cases lead to panels. I think that will be a big plus over what our current situation is. Quite frankly, I think we have vastly overestimated what our, quote, unquote, "leverage" over the past decade has actually been.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner D'Amato?

COMMISSIONER D'AMATO: Yes. Thank you, Mr. Chairman.

First, I want to thank all the members of the panel for coming today. I think this is a very, very important matter and a very important hearing.

I think that the generation of men that handled the Soviet protagonists for the United States over a 40-year period handled that pretty well. I'm not certain we're not on the edge of another era and dealing with another protagonist here and we're just trying to figure out what the best route is to handle it.

I also want to thank Mr. Wu for your testimony. I think it was very important, dramatic testimony. I think it will be important to understand what you're saying in the context of the debates that we are about to have on the trading relationship with the Chinese. And I'm sure that your testimony will be widely distributed in the context of that debate.

I have a couple of questions to ask you. First, did you say that Western or American telecommunications firms as a price of doing business with the Chinese government have agreed to technologies which would aid the Chinese government in conducting a surveillance on Westerners?

MR. WU: I can send this information later to your office. This telecommunication firm is signing an agreement with a Chinese company. They allow giving this information but the signals will be bounced back to china. And the Chinese can follow the signal to back up, find out who the people are communicating with.

COMMISSIONER D'AMATO: I would like to follow that up with you at some point. I take that your answer is yes, essentially.

MR. WU: We have the information. I will give it to you.

COMMISSIONER D'AMATO: Secondly, on a more general matter, the argument is made on China's accession to the WTO - you always hear the division is within our protagonists -- that reformers in the Chinese government are strengthening their hand for us to go along with this agreement.

And that would then strengthen the hand of the movement toward reform and democracy. Is there such a split, a schism that you believe exists in the Chinese government? And what do you think of that argument?

MR. WU: Sir, in the world, every individual, every institution, or every issue, there's nothing that is totally black and white.

The WTO is one of the issues and it is very controversial. The argument of China entering into the WTO may make big progress for democracy in China and it could weaken the Chinese government or the communist government.

I see the other picture that the Chinese are using the benefits of profit from the WTO to

strengthen their power and control. That's why I'm really concerned about this.

There is no doubt foreign investment in today's China benefits the common Chinese a lot. They hire 22 million employees. In China, today the top priority is to find a job in a foreign company because the best benefits are there.

But this is one side of the story. The benefit also goes to the government. That's why the former Soviet Union doesn't have money to pay these military experts. Right?

Last August I was in Vladovostok. You know, this is the headquarters of the pacific fleet of Russia. I saw these battleships lined up in the port including the nuclear submarine -- the Russians don't have money -- and right away I thought, "Well, soon they will receive a purchase order from China."

How can this former communist country have no money -- and this country that is still communist have the money to buy these things? The very serious question is should we benefit these communists?

One by one small issues don't matter, a violation of human rights, violation of business

rights. You can talk and talk, but it really helps thinking about it. What could happen in the future?

Is this government continues to control the most populated nation in the world, if it has a huge labor force and manpower and then if it has big and powerful economy, what can the U.S. do?

COMMISSIONER BECKER: Thank you.

First I really want to compliment the panel. I think in every case, your testimony was with conviction and sincerity. I was impressed even on different viewpoints as to the way it came across.

My question really is to Harry Wu and anybody else that would want to fill into this. The hallmark of freedom throughout the world has always been a free trade union, but this seems to be a precursor. This preceded the fall of the communist regimes in Eastern Europe and in the Soviet Union to build a free trade union movement, freedom of association, exchange of ideas, and to be able to work collectively together.

Can any of you on this panel up here give me any idea whether a free trade union movement is on the horizon in China? Under their system, can a free trade union movement, freedom of association develop?

MR. WU: In China, there is a trade union system, but it is government-controlled. No one can organize a free trade union. Let me give you an example, why does the Chinese government so strongly suppress the Falun Gong? Because the Falun Gong has an organized system throughout the whole nation.

In 1984, the Chinese government issued a document not to allow any kind of organization to have nationwide systems. For example, Mr. A collects matchboxes in Houston. You can organize a small association in Houston for those interested in collecting matchboxes.

Mr. B has the same interest. He can organize a small association in New York but it is never allowed to join together, even though their interest is to collect matchboxes. That's why Falun Gong became a big problem to this government.

So unions never happen in China? Of course, there is a union. You have the government-controlled unions since 1949. So the USSR also had the trade unions, right?

DR. HARDING: Could I say a few words about that?

COMMISSIONER BECKER: Yes.

DR. HARDING: The state of organization and association in China at the moment is a very interesting question. I don't think free trade unions are on the horizon at all.

Clearly the Chinese Communist Party worries about workers as a class probably as much as they worry about any social class. And, therefore, they are not going to permit at any time in the near future independent trade unions.

On the other hand, in other areas, we see some interesting developments. The fact is that there is a huge independent religious movement in China. Falun Gong is the best example. There are other examples in the areas of Buddhism and Christianity.

The fact is, of course, that the Chinese Communist Party tries to control and suppress these movements. The equally important fact is that they are proving unable to do so.

This is no longer a totalitarian system. The totalitarian controls have so eroded that society is not as controllable as it was in the past. They are having enormous difficulty in dealing with Falun Gong.

I don't think they are going to succeed.

Somewhere in the middle of the spectrum would be the area of business association. Here some research is being done by one of my students at my university which is indicating a much more complicated picture. Business associations in China do have to be chartered in some way by the government. So they have to be approved.

But many of them are beginning to be mechanisms for the business community to assert their interests vis-à-vis government policy and, actually, to affect some change in policy.

These changes are almost always in the area of economic regulation: value-added tax and intellectual property rights are some of the examples he has been studying. But it does suggest that we are just beginning to see the emergence of some quasi-independent organizations in the area of not labor organization but business organization.

DR. GONG: I think it's important as we have this discussion to think of how some things have changed in the direction that, sir, you're interested in, even though they may not currently, as Harry has I think rightly said, been manifest in terms of specific

labor union ability to organize in organizational terms.

I remember the first time I visited China mainland. It was 1981 and the opportunity was to meet people like Deng Xiaoping and so on, and to be struck by the fact that in 1982 and 1983 and by 1984, there had been a marked shift in the willingness and ability of people to say what they really thought. Freedom of speech and freedom of expression I think are connected to the question about freedom to organize.

And while there is not yet in many cases an ability to freely organize, I think no one would doubt the fact that for most people in most circumstances, partly because of this change in material life but I think going far beyond that, there has been an ability to think and to speak and to criticize, which is important. And so when we talk about the context of these discussions and enforceability and the rest of it, I think we have to put it into real organic context to look at those issues.

Yes, it's true that at no time in the short-term horizon will we see labor unions organized, but I think the ability of people to talk through those

issues, to say how it affects their lives and so on, is markedly changed.

VICE CHAIRMAN PAPADIMITRIOU: Mr. Lardy, did you have anything to add?

MR. LARDY: No.

VICE CHAIRMAN PAPADIMITRIOU: Chairman Weidenbaum?

CHAIRMAN WEIDENBAUM: A question for Professor Harding. I note the vivid descriptions that we have heard this afternoon on this panel, the shortcomings in the actions of the Chinese government.

Bearing that in mind, my question is: Over the past 20 to 30 years, if we had used those standards that were applied by two of our witnesses to China, if we had used those same standards to other countries such as countries in the communist area, Arab countries, just to cite a couple of examples.

Applying those standards, would that have resulted in cutting off or restricting our trade relations with countries that we practiced and maintained normal trading relationships?

DR. HARDING: Obviously you have now asked an incredibly complicated question: On all of the dimensions of relevance and interest to us, how does

China compare with all of the countries with whom we had various relationships 20 years ago?

CHAIRMAN WEIDENBAUM: That's not the question. The question is --

DR. HARDING: Let's take one obvious comparison, and that is Cuba. Here is a country that is a similar system; that is, it is still a totalitarian system, against which we have tried to impose a whole variety of political and economic sanctions and have not achieved I think measurable results, certainly not positive results.

So here's a kind of counter example. One wonders what would have happened if in the 1960s we had encouraged Cuba to undertake the kinds of reform that China began 20 years later. Given that combination of 40 years, where would Cuba be today? I can't answer that question, but it seems to me that is a good counter example.

North Korea is another counter example of a highly totalitarian system against which the United States and the rest of the world have imposed sanctions consistently for an even longer period of time and with no positive efforts.

So I think yes, there are cases where we have imposed very stringent economic and political sanctions, relatively few. And in those cases, it's hard to see dramatic results either in every case.

Does that answer your question?

CHAIRMAN WEIDENBAUM: That's useful information, but that isn't the thrust of my question. That is, I'm trying to identify countries that we didn't impose sanctions.

DR. HARDING: Yes.

CHAIRMAN WEIDENBAUM: -- that if they had been forced to meet the criteria that's been applied to China in our discussion this afternoon, would we have been forced to restrict or eliminate trade with them? Can you think of examples?

DR. HARDING: Well, one of the most interesting comparisons is Taiwan, which, although never an effective totalitarian system, was a country whose ruling party was organized along Leninist lines about the same time as the Chinese Communist Party was.

When I lived there in the early 1970s, piracy was rampant. One could buy almost any best seller from the United States and, indeed, most college

textbooks at a bookstore on the main street called Caves. To this day this forms the basis of my library on China from that period.

You obviously could not buy books on the People's Republic of China because they were censored, they were banned. And even classical Chinese language texts from the mainland with no political content were banned. That I found to my embarrassment when I tried to bring one of those into Taiwan. There was a secret police. There were prisons on islands off the coast. This was not as repressive as the mainland is, but it was highly repressive.

The United States did not impose very many political or economic sanctions against Taiwan, although over time we were increasingly critical and encouraging of democratization on Taiwan. Instead, the policy we adopted was to encourage Taiwan's integration into the international community, its economic growth, and an open economy.

We see the consequences today. I think it would be naive to think that the mainland is going to go down the same route as Taiwan for a variety of reasons. It's much bigger. It still has a totalitarian ideology to some degree. It has much less

of a leadership commitment to political reform. But that to me is the most interesting comparison because they are both Chinese societies.

CHAIRMAN WEIDENBAUM: Thank you.

MR. WU: I want to make a comment. Harry Harding is my respectful scholar all the time. Whenever he has a paper, I want to get it and read it.

But I disagree that using Taiwan, particularly 1970, as a case so-called of totalitarian system that today will have a dramatic change. I think this is not really precisely this totalitarian system based on capitalism system or based on communism system is fundamentally different.

Communism system means no private ownership. That means no privacy at all. Now, I come from mainland China. You know, my whole life is totally from my food, monthly food, from my job, for my housing, everything, my kids go to the school, it is entirely controlled by one hand. And nobody has their properties. There's absolutely no privacy.

Taiwan in the early sometimes, yes, is a totalitarian system. It's the whole country has the secret police. They have killed and murdered a lot of people. But they recognize capitalism. Private

property is still existing in Taiwan. They still recognize privacy.

So that's why today Taiwan and the other example South Korea finally carry off these totalitarian systems and move quickly, rapidly into democratic society and other opposition brought up. And many people who actually learn and study in the United States go back, serve as opposition to Kuomintang.

In China, in communist China, particularly in the first three years, absolutely there's no privacy at all. That kind of control is so different from the other totalitarian system based on capitalism. So that kind of comparison, we should be very careful.

Okay. Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Lewis?

COMMISSIONER LEWIS: I would like to thank this panel very much for coming before us. Mr. Wu, it's really a privilege to have you here. You're an inspiration for those who seek freedom and liberty.

I'd like to ask Mr. Lardy, Mr. Mastel and Mr. Gong one question each. For Mr. Mastel, I'd like to ask you the sources for your knowledge where you

said, "Chinese press reports said that China does not plan to rigorously fulfill the agricultural provisions of the WTO." That was number one.

Number two was "U.S. industry estimates that losses to piracy today are greater than they were in 1995."

And the third was the formal state plans on the import supplication policies. What's the source of your statements on those three subjects?

Mr. Gong, my question to you is: If China enters the WTO, would you expect that they will use their membership in the WTO to influence and lobby other countries on decisions that would be affecting us or them in terms of enforcement procedures?

And, Mr. Lardy, the question to you is: I understand that you are very concerned about the banking system in China and you may even have a book coming out on this subject. Are you concerned that if they enter the WTO, with the non-transparency of their banking system and the closed economies that they have that tying ourselves more closely to them economically could have ramifications similar to what took place with the Asian financial crisis last year, but with the greater Chinese economy?

Mr. Mastel?

MR. MASTEL: Sure. I actually would be happy to provide each of those documents to you. That might be the easiest way.

The comment about China not fulfilling some of the agricultural agreements was based on a comment that China's chief WRO negotiator made to some Chinese farmers. And it was reported in the Chinese press.

The second thing, the calculation about the volume of piracy is actually from the International Intellectual Property Alliance, the same group that Mr. Lardy mentioned. This is the annual figure that they calculate of how much they think they're losing to piracy. So it's my comparison of their '95 and 1999 documents.

Last, is the state plans on automobiles and pharmaceuticals. This problem is actually discussed in some detail every year in the U.S. National Trade Estimate, which is the document that the USTR produces that explains its concerns in foreign markets around the world. It has given quite a bit of attention to this issue of China's import substitution regulation over the years.

Any of those things you are interested in getting, I would be happy to provide to you.

COMMISSIONER LEWIS: Thank you very much.

DR. GONG: I appreciate your question. The thrust of my analysis was to argue that China will continue to maintain a strategic approach to trade and exchange rate. And it would follow from that analysis that it would use all mechanisms at its disposal, including WTO membership, to lobby other countries by all legal means in areas of its own interests, including questions of enforceability.

It seems to me that the WTO or a subset of the larger question of whether or not over time China may have economic or financial ability also to influence other countries in ways that might be of importance to it.

COMMISSIONER LEWIS: Thank you.

MR. LARDY: Very briefly. China certainly does have a major problem with the weaknesses of its banking system. The part of the bilateral agreement with the United States that covers financial services does provide for very substantial opening of the market to foreign banks I think will be very helpful in terms of providing increased competition.

As to what the risks are for the United States, I think, at least in the short run, they're quite modest, primarily because China does not have capital account convertibility.

There is nothing in the WTO agreement that requires them to move towards capital account convertibility. It is certainly their long-term plan to move in that direction, but the timetable is rather vague.

I think, quite frankly, it will depend on the speed with which they can rehabilitate the underlying strength of their banking system and really create a more commercially oriented system, as opposed to the more policy-oriented banking system that they have had.

So I think the answer is the risks to us in the short run are modest. And even in the medium and the long term, they should be fairly manageable if China follows reasonable policies and gears the opening of its capital account to the reform of its domestic financial system.

COMMISSIONER LEWIS: Thank you very much.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Angell?

COMMISSIONER ANGELL: I would like to have the panelists focus on the question about harm. Looking at China or looking at any other country we would be trading with, the ability of the country to harm its own citizens, please assess the ability of the country to harm the United States vs. harming its own progress.

Assuming the United States is a very diversified economy with a diversified world with which we can receive and do business, what should we think about when we come to negotiating contracts with countries in regard to how much they harm themselves?

Clearly if we only had two goods and we produce both and consume both and if one country decided to subsidize the production of one of those goods and sell it to us below cost, the harm to us would be that we would have a temporary windfall gain for some in our society and we would have a temporary windfall loss for others.

But is there really much here that suggests that we are that vulnerable to harm? Shouldn't we in our trade negotiations be more clearly focused on countries not harming themselves?

MR. MASTEL: If I could respond briefly?
There are a number of comments I would like to make in response to that question.

If your theory is correct, we would never negotiate trade agreements at all. Why would we? We would just lower our barriers and let other countries do whatever they want to do.

If unilateral free trade works best, that is the best policy for the U.S. to pursue. It is a very easy policy to pursue. We don't even need a U.S. trade negotiator.

We would just get rid of them, lower our barriers, practice unilateral free trade, and say anybody else who wants to put up barriers or subsidize is hurting themselves.

COMMISSIONER ANGELL: Generally we assume that multilateral or bilateral is superior to unilateral in that everybody benefits if we move to open trade.

MR. MASTEL: Right.

COMMISSIONER ANGELL: But it may well be that we are approaching a period where we would speak with a clearer voice if we did decide that unilateral movement to free trade is in the U.S. interest.

Maybe other countries would realize we're not really trying to get an advantage from them in our negotiations.

MR. MASTEL: I can't speak for the whole panel, of course, but two points I would make are: first of all, I don't think that strategy is politically sustainable.

I think you saw, for example, in the steel import crisis how great the outcry was when the problem occurred in one sector of the U.S. economy. I think the perceived problems throughout the economy would make that strategy not very viable.

Secondly, I would say that if you look back, one of the things the U.S. has done well in the trading system has been advocating other countries lowering their barriers.

One reason I have focused on enforcement so much is that one of the achievements of U.S. trade policy is winning the mutual benefits of trade by getting other countries to actually lower their trade barriers as well. That takes work, influence and continual focus.

COMMISSIONER ANGELL: But, Mr. Mastel, you by your testimony to us today, really may be an

obstacle to going forward because you specialize in giving everyone reasons not to open up the world trade.

MR. MASTEL: I'm not sure if that's my specialty, but in this case I do think that China not complying with the agreements is an important issue to consider before striking agreements with China. When we talk about our commercial relationship with China, we certainly have to look at China's record.

If that's an obstacle, so be it, but I think it's an important obstacle we have to confront if we want to build a trade policy that has some chance of getting public support as well as making good economic sense.

Putting the economic arguments aside, we are all cheering for China's reformers. We all want Zhu Rhongji to succeed in changing China's economy for the better.

If we really want to do that, the best thing we should do is enforce this agreement to the letter vigorously using every resource we can to make China do what it said it would do. That's the best way to get China to become a more open society.

COMMISSIONER ANGELL: But a market system economy is built upon Adam Smith's notion of

individuals seeking their own gain. That we do get. My goodness, if you couldn't trust anyone, how in the world could a market system economy work?

Sometimes we have to find out who we can trust. And why isn't it best to have businesses that are dealing with China find out who they can trust and who they cannot trust?

MR. MASTEL: Well, I'm not sure we are going to agree about the fundamental economics of unilateral free trade, but what I would say in this context is that we already have a pretty good idea of how much we can trust China and Chinese government agencies from the past record that I went through in my testimony.

I think, at the very least, that tells us that we need to spend a lot more time and be a lot more careful about enforcing the terms of agreements. That's the only point I would leave you with in this context.

I think that we have not done a good job of making sure that China does what it says it's going to do. Unless we do, we are always going to be disappointed by the results of our trade policy with China.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Rumsfeld?

COMMISSIONER ANGELL: Mr. Wu had something.

VICE CHAIRMAN PAPADIMITRIOU: Excuse me.

MR. WU: I cannot give you the answer about you asked for, but I would like to give you an example.

You are talking about: Who can I trust or cannot trust?

There is a gentleman from China in New York, he opened a business and registered in the United States legally. He registered his capital, a half million. But you find out one of the owners of the small firm is the China Commercial Industry Bank. He has unlimited credit through his bank. The government bank backs up him. And he has \$600,000 to build a house in Long Island, has a fast car.

His title is the president of the company. But his real title is Senior Colonel of Security. He has a special permit to import scrap metals into China.

And that includes military surplus in the United States. But he will not tell you about it. He just talks about "My business." And if you have business with him, you can make money.

How can you tell? Who is the businessman from China today doing business in the United States? Who is your partner today in China dealing with? Government companies mostly, not all of them. But mainly it's these people.

That is a very important issue. It is unlike some people from Brazil or some people from other countries. This economic system is entirely controlled by the government, this so-called state ownership system, it is a socialist state ownership system.

COMMISSIONER ANGELL: But, Mr. Wu, when governments decide to do that, they really aren't very efficient. It's wasting the resources of China.

MR. WU: They don't care.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner Rumsfeld?

COMMISSIONER RUMSFELD: Thank you, Mr. Chairman.

This really has been a terrific panel in my judgment and certainly having Dr. Wu, who has lived under a repressive system, adds an important dimension to it.

We have talked about leverage, sanctions and enforcement. Dr. Gong and I have spent some time not too long ago looking at the proliferation of weapons of mass destruction and ballistic missiles, the technologies, and the difficulty that the United States has in holding a country accountable for their participation in that proliferation.

Even though they protest and say they will not do it, they, in fact, are doing it. And then we come home and acquiesce in it frequently.

President Clinton said the sanctions legislation imposes sanctions that are too stiff for the wrong, for the breach. And, therefore, he said "it causes us to fudge," he said in a press conference, as I recall, about a year and a half ago. And he is right. They were fudging. And, there is a problem with that.

I am curious to know the extent to which that same thing happens in trade negotiations, where, in fact, we know countries are not behaving, or adhering to their agreements. And we call them on it, but we don't want to go the next step and impose a penalty, because we know, for example, that unilateral sanctions don't work very long.

Getting other countries to agree to sanctions is difficult. So are we fooling ourselves when we talk about vigorous enforcement? Certainly in proliferation we were, because it just didn't happen. It's going on today as we meet. Russia and China are helping other countries with those technologies, notwithstanding our understandings with them that they will not do that.

I suspect from what has been said here, that I don't know enough about the trade world to know if that happens there as well.

MR. MASTEL: Just briefly. I do think it does. In many ways, it directly parallels what you're talking about. The fact is when you say a country is violating a trade agreement, that means you have to do something about it --

COMMISSIONER RUMSFELD: Exactly.

MR. MASTEL: Sometimes the Administration, for a variety of reasons, doesn't want to confront China on trade. Often, things are going on in other spheres. So there are many examples of fudging and ignoring the truth.

For example, I glossed over one in my commentary. It was on the market access agreement in

'92. That's an agreement that is very sweeping. China has done some of the things it said it was going to do, but clearly it hasn't done some of the things, it promised to.

I think any objective observer would agree with that. In fact, the Administration has written the things that China hasn't done in its annual report on Chinese trade barriers. But year after year, the Administration has decided not to initiate action against China because it didn't want to rock the boat, over this issue.

So it is an ongoing problem and not just with China. What you put your finger upon is a problem I think we have in our trade policy across the board.

The problem is we are not very consistent. We tend to pick and choose when we decide to make an issue of compliance. That undermines our credibility, at least in the trade area and I suspect in other areas, too.

VICE CHAIRMAN PAPADIMITRIOU: Commissioner D'Amato?

COMMISSIONER D'AMATO: Thank you, Mr. Chairman.

Mr. Lardy, you were talking about the enforcement of the intellectual property agreements. I had the opportunity to be in the U.S. Embassy on intelligence duty two years ago.

I found out that if you went down a street, there was an alley you can get to that takes about 45 seconds. It's two blocks away from the embassy. You go down an alley and you can buy all of the Izod shirts and all that stuff. If you know where to go, you can buy any movie and any CD that is published in the West. So it is all right there.

I wondered what is going on here after all of the commitments to intellectual property agreements? Within 45 seconds of the embassy, you can get anything you want. That's the pirated stuff in China. And I just wondered whether it's being enforced at all. I just throw that question out.

And I think that the enforcement issue is very, very important. I don't know how you deal with people who won't abide by their promises. That's the fundamental basis of a contractual society. That's the way we operate.

I do want to ask Mr. Wu one question that I'm very intrigued with, and that is your assessment of

the Falun Gong movement. In the past, in China such movements have brought down regimes more than once. This seems to be a movement of that type.

What is your assessment of the strength of that movement currently in China? Does there seem to be a prospect that this movement will finally consume this regime?

DR. GONG: You had a first question, too.

COMMISSIONER D'AMATO: Well, I was just making a comment on the intellectual property agreement. Do you know where that alley is?

DR. GONG: Yes.

COMMISSIONER D'AMATO: Forty-five seconds from the American embassy, you can get yourself a good movie. If they can get it right there within 45 seconds of the embassy, my question is: How well is it being enforced in the rest of China?

DR. GONG: Just for fun, can I add a footnote on that?

COMMISSIONER D'AMATO: Yes.

DR. GONG: Do you know what the Microsoft number for the level of counterfeit and piracy in the United States is for Microsoft products?

COMMISSIONER D'AMATO: No, I don't.

DR. GONG: Twenty-five percent.

COMMISSIONER D'AMATO: In the United States?

DR. GONG: In the United States, which is to say in one of the most law-abiding countries in the world, where we believe in IPR, we still have according to Microsoft, 25 percent counterfeit and pirated product.

So when we say China is 95 percent, that's a huge number, but we're still 25 percent.

MR. LARDY: The last time --

COMMISSIONER D'AMATO: Maybe that's a sign we shouldn't be engaging in signing agreements on that if they're not enforceable at all.

MR. LARDY: The last time I looked at the numbers, -- and Greg probably knows the more recent ones -- there was more software being pirated in Germany than there was in China.

MR. MASTEL: That's because of a unique problem we have with the German intellectual property regime. We disagree about a legal interpretation with the Germans, and it has a big economic impact because they're a big economy.

I don't think anyone would disagree, though. The problem in China is of a different character than elsewhere in the world. You are, right. Nobody is perfect on piracy.

But as far as the level of piracy in China -- you have obviously some firsthand experience. I do a check every year when I'm there as to how easy it is to get pirated material.

My impression is, even though I'm obviously an American citizen walking down the street, it's not hard to find pretty much anything you want very quickly.

That's not the case in Washington, D.C. At least my own personal survey would indicate it's a much higher degree of enforcement here.

COMMISSIONER D'AMATO: Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Mr. Wu?

MR. WU: I think Chinese history in the last 3,000 years can be summarized very simply: Dynasty replaced dynasty. And between two dynasties is widespread starvation, invasion, and then peasant uprising.

So this major force is made up of peasants, not really of intellectuals. That's why I always say:

Well, forget about the so-called intellectual dissidents, you know, even I really underestimate the Internet can play a very important role in changing China.

And the government doesn't like Falun Gong, Boxer movement, Taiping Rebellion. That is a real problem to them. Okay? That's what they really seriously care about.

You see, in the beginning, the government agreed with Falun Gong very much because Falun Gong was talking about physically and spiritually improving their own body. That's fine. That was better than talking about unemployment, talking about politics; right?

So that's why the Falun Gong book, the cover is yellow. So before that, we all the time see a red book. Mao quotations is a red book, is the communist Bible. Okay? So it's the number one publication in China. Falun Gong yellow book becomes number two publication.

So far as I understand, they printed about 50 million copies. Now it's a kind of threat because the people say, "Oh, I'm not going to read the red

book. I'm going to the yellow book." And then this is a big problem to them. Okay?

COMMISSIONER ANGELL: Mr. Chairman, I can't help but make an observation. Victor Hugo had Jean Valjean stealing a loaf of bread and in some ways, it was sort of okay if you have hungry children. What people will do and will not do in regard to property rights and either laws to some extent depends upon one's poverty.

To the extent that we can engage in activities that will increase the well-being of the people of Mexico and China, then to that extent, it seems to me we're more apt to find that rights of property will change as people's well-being improves.

Thank you.

VICE CHAIRMAN PAPADIMITRIOU: Short question, because we are running out of time.

COMMISSIONER LEWIS: Mr. Lardy, this concerns exports to China and the openness of their market. You said that China is the sixth largest destination for U.S. exports, but I think you also said that 50 percent of the exports to China go to American companies there, which may be then reexported back to the United States.

MR. LARDY: I said that 50 percent of all Chinese imports are by foreign-invested companies, but I'm not saying it's all coming or even predominantly coming from the United States.

COMMISSIONER LEWIS: I'm sorry. Okay.

MR. LARDY: It may be coming from Japan, Southeast Asia, Korea.

COMMISSIONER LEWIS: Okay. And then the argument that you made that China may not be as closed an economy as people allege it to be was based on the huge foreign direct investment that has taken place in China.

Does the fact that there is huge foreign direct investment, on the one hand, versus exports, on the other hand, make them equal in terms of the openness of the economy? And I understand that maybe 80 percent or close to 80 percent of the foreign direct investment in China is from overseas Chinese.

Does this affect the view of the openness or closeness of the Chinese economy?

MR. LARDY: Well, certainly my general point was that it's very easy to overemphasize the degree to which this economy is closed. I think when you hear particularly some people from the

Administration talking about the Chinese economy and what this agreement is going to do, that we are going to be moving from a tightly regulated, highly closed economy to one that is completely open. I think that is a little bit misleading. I think it is already fairly open.

All you have got to do is look at this trade growth, the growth of foreign investment, the unprecedented amount, the extent to which foreign firms are allowed to operate.

I think it's a fairly open economy already, and I think the corollary is I don't expect a huge increase in our ability to sell products to China once the agreement is implemented.

There will obviously be an increase, probably even greater than there has been in the past. But it is already our fastest growing market, before this agreement is even implemented.

So I would point on the openness side to the growth of trade, the openness to foreign investment, the reduction in tariff barriers, and the reduction over time, particularly in the 1990s in non-tariff barriers.

COMMISSIONER LEWIS: And what about the 80 percent of the overseas investment?

MR. LARDY: Oh, it is true about 50 to 60 percent of all the investment does come from overseas Chinese, but these are companies and firms and entrepreneurs that are making decisions about where to invest. And the fact that they're initially located in Hong Kong or somewhere else in Southeast Asia or in Taiwan I don't think fundamentally changes the nature of the decision.

COMMISSIONER LEWIS: You don't think it's that the non-Chinese are being prohibited from investing and they're really welcoming the overseas Chinese investing?

MR. LARDY: No, I don't think the non-Chinese are being prohibited from investing. The United States is the fourth largest investor in China. I think it is, quite frankly, the fact that the greatest gains from investing in China occur to those companies that are primarily engaged in labor-intensive industries.

And those industries were predominantly situated in close proximity to China in the late 1970s, when China began to open up. So I think just

economically it was more natural that those companies were going to move.

I mean, General Motors is now building Buicks in Shanghai and Poudong, but that's after 20 years of rapid growth in the development of a market for automobiles. This would not have been a sensible investment 15 or 20 years ago. So most of the investment has been in the labor-intensive industries.

COMMISSIONER LEWIS: Thank you.

VICE CHAIRMAN PAPADIMITRIOU: We want to thank you all very much. This has been very interesting and I would say on the basis of what we have already heard terrific participation. And we appreciate it very, very much.